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FISCAL IMPACT STATEMENT

LS 7311

BILL NUMBER: HB 1441

NOTE PREPARED: Feb 3, 2007

BILL AMENDED:

SUBJECT: Slot Machines.

FIRST AUTHOR: Rep. Austin

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes slot machines at racetracks. It limits a permit holder who offers slot machines to the number of satellite facility licenses issued to the permit holder before January 1, 2007.

The bill imposes a state wagering tax of 32% of the adjusted gross receipts from slot machine wagering. It redirects certain Riverboat Admissions Taxes from the Horse Racing Commission to the state General Fund. It also reduces the supplemental distribution paid to the Horse Racing Commission in state fiscal years ending before July 1, 2009, and eliminates the supplemental distribution after June 30, 2009. The bill provides for the annual distribution of state slot machine wagering taxes.

The bill imposes a local wagering tax of 5%. It provides for the distribution of the local taxes in Madison County and Shelby County.

The bill imposes a horse racing promotion fee of 15.25% of the adjusted gross receipts from slot machine wagering. It provides for the distribution of the fees to purses, breed development, and the associations representing owners, breeders, and trainers. The bill requires 160 live racing days each year.

Effective Date: July 1, 2007.

Summary of Net State Impact: The potential net impact on the state General Fund and the Property Tax Replacement Fund due to this bill is summarized in the table below.

	FY 2009	FY 2010
General Fund		
Slot Machine Wagering Tax	\$26.8 M - \$38.8 M	\$72.0 - \$88.0 M
Riverboat Admission Tax Collections *	17.6 M	17.6 M
Total	44.4 M - 56.4 M	89.6 M - 105.6 M
Property Tax Replacement Fund		
Riverboat Admission Tax Supplemental Funding **	9.6 M	9.6 M
Total GF and PTRF	\$54.0 M - \$66.0 M	\$99.2 M - \$115.2 M
* Riverboat Admission Tax collections currently distributed to the Indiana Horse Racing Commission (IHRC) for various horse racing purposes. ** Amounts annually transferred from the PTRF to the IHRC for horse racing purposes to replace Riverboat Admission Tax shortages.		

In addition to the impacts outlined in the table above, it is important to note that the bill requires payment of a one-time initial licensing fee by slot machine operators. The initial licensing fee is equal to \$20,000 per slot machine that a licensee places into service at the licensee's horse race track. The fee must be paid before September 1, 2007, with the revenue from the fee distributed to the state General Fund in FY 2008. The fee would generate \$20 M for each 1,000 slot machines placed into service. The bill authorizes up to 5,000 slot machines to be split between Hoosier Park and Indiana Downs. If 5,000 slot machines are placed into service, the fee would generate \$100 M.

It is important to note that the fiscal estimates are not adjusted to account for the potential displacement of Riverboat Admission Tax and Wagering Tax revenue by slot machine wagering at Hoosier Park and Indiana Downs. These potential competitive impacts on the fiscal outcomes are indeterminable, but could be significant.

Explanation of State Expenditures: *Indiana Gaming Commission (IGC):* The bill requires the IGC to regulate and administer slot machine operations at Hoosier Park and Indiana Downs, including investigation and licensing of owners of the slot machine facilities and suppliers of slot machines. The IGC would incur additional administrative expenses as a result of these new responsibilities. However, the bill does not fund these costs. While the bill provides that licensees pay annual license fees and pay the cost of any investigation by the IGC relating to the licensee, the bill requires this money to be deposited in the state General Fund.

Penalties: The bill establishes a Class D felony for various types of violations at slot machine facilities. A Class D felony is punishable by a prison term ranging from six months to three years or reduction to Class A misdemeanor, depending upon mitigating and aggravating circumstances. The average expenditure to house an adult offender was \$22,734 in FY 2006. (This does not include the cost of new construction.) If offenders can be housed in existing facilities with no additional staff, the average cost for medical care, food, and clothing is approximately \$1,825 annually, or \$5 daily, per prisoner. The estimated average cost of housing a juvenile in a state juvenile facility was \$63,139. The average length of stay in DOC facilities for all Class D felony offenders is approximately ten months.

Explanation of State Revenues: *Tax and Fee Provisions:* The bill authorizes the operation of slot machines at Hoosier Park and Indiana Downs. The bill limits the number of slot machines at each horse race track to 2,500. The bill imposes an initial licensing fee of \$20,000 per slot machine, a 32% state Slot Machine Wagering Tax, a 5% Local Slot Machine Wagering Tax, and a 15.25% Horse Racing Promotion Fee.

Initial Slot Machine Licensing Fee: The initial licensing fee is \$20,000 per slot machine that a licensee places into service. The bill requires the fee to be paid to the IGC before September 1, 2007. The fee would generate \$20 M for each 1,000 slot machines placed into service. The bill authorizes up to 5,000 slot machines to be split equally between Hoosier Park and Indiana Downs. If 5,000 slot machines are placed into service, the fee would generate \$100 M.

Slot Machine Wagering Tax: The bill imposes a state Slot Machine Wagering Tax equal to 32% of the adjusted gross receipts (total wagers minus winnings paid out) generated by slot machines at Hoosier Park and Indiana Downs. It is estimated that the tax could potentially generate about **\$54.0 M to \$66.0 M** in FY 2008 and about **\$72.0 M to \$88.0 M** annually thereafter. (Note: It is estimated that annual AGR from slot machines at Hoosier Park and Indiana Downs could potentially range from approximately \$225.0 M to \$275.0 M. The potential annual growth in this revenue is indeterminable.) Revenue from the tax is distributed to the State Racetrack Gaming Fund, created by the bill. Assuming a 12-15 month start-up period, it is estimated that no revenue from this tax will be generated in FY 2008; with about 9-12 months of revenue potentially being generated in FY 2009. Under the bill, once the IGC approves a slot machine licensee's plans for a permanent facility, it must allow the licensee to operate slot machines in a temporary facility for up to 18 months. As a result, the start-up period could be reduced to the extent that operations in a temporary facility are established. The distribution of revenue from the Slot Machine Wagering Tax is summarized in the table below.

Purpose	FY 2009	FY 2010
Riverboat Admission Tax Replacement	\$27.2 M	\$0
State General Fund	26.8 M - 38.8 M	72.0 M - 88.0 M
High Growth Fund	Begins FY 2010	0
State Department of Agriculture	Begins FY 2010	0
Educational Technology Program and Fund	Begins FY 2010	0
Central Indiana Regional Transportation Authority	Begins FY 2010	0
Local Revenue Sharing	0	0
Total	\$54.0 M - \$66.0 M	\$72.0 M - \$88.0 M

Until the end of FY 2009, the first \$27.2 M annually from the Slot Machine Wagering Tax is distributed to the Indiana Horse Racing Commission (IHRC) for horse racing purposes. The next \$150 M annually is distributed to the state General Fund, with the remainder distributed to local revenue sharing.

Beginning in FY 2010, no distribution is to be made to the IHRC, with the first \$150 M annually distributed to the state General Fund. After the state General Fund distribution the bill requires distributions to the High Growth Fund established by the bill, the Department of Agriculture, the Educational Technology Program

and Fund, and the Central Indiana Regional Transportation Authority. The remainder after all these specified distributions would be distributed to local revenue sharing.

Under local revenue sharing, each county not containing a riverboat casino or a horse racing track that operates slot machines will annually receive an equal share of the money available for revenue sharing up to \$500,000. For each county receiving revenue sharing money, the amount received is to be divided on a per capita basis between the county and the cities and towns within the county.

(1) The bill requires the annual distribution to the state General Fund to be used for full day kindergarten.

(2) The High Growth Fund is established by the bill to provide money to the Indiana Economic Development Corporation for its efforts to attract high growth companies with high skilled jobs.

(3) The distribution to the Department of Agriculture is to be utilized to promote agriculture based economic development; conservation; research; and education.

(4) Money in the Educational Technology Fund must be used to extend educational technologies to elementary and secondary schools for various purposes.

Horse Racing Promotion Fee: The bill imposes a Horse Racing Promotion Fee equal to 15.25% of slot machine adjusted gross receipts. It is estimated that the fee could potentially generate about **\$25.7 M to \$31.5 M** in FY 2009, and **\$34.3 M to \$41.9 M** annually thereafter. (The FY 2009 total assumes 9 months of revenue.) The Horse Racing Promotion Fee revenue is distributed as follows: 1.5% for equine welfare; 1.5% for backside benevolence; and 97% for thoroughbred, standardbred, and quarter horse purses and horsemen's associations, and breed development funds.

Existing Riverboat Admission Tax to Horse Racing: Until the end of FY 2009, the bill distributes \$27.2 M from the state Slot Machine Wagering Tax to replace (1) Riverboat Admission Tax collections and (2) the annual supplemental payment from PTRF for replacement of Admission Tax shortages currently funding horse racing programs. Beginning in FY 2010, the Slot Machine Wagering Tax is no longer utilized to replace the Riverboat subsidy to horse racing. The bill redirects actual Riverboat Admission Tax collections otherwise earmarked for the horse racing subsidy to the state General Fund, and discontinues the supplemental Admission Tax payments from the PTRF. Under current statute, \$0.65 per \$3.00 Admission Tax paid is distributed to the IHRC for purses, horsemen's associations, breed development, and the race track subsidy. This annual distribution is guaranteed at \$27.2 M, with the supplemental payment from PTRF making up the difference between the guarantee amount and actual Admission Tax collections. The supplemental payment is made in the fiscal year following the fiscal year of the shortage. In FY 2006 approximately \$17.6 M in Admission Tax collections was distributed to the IHRC. Thus, the supplemental payment from PTRF for the FY 2006 shortage totaled approximately \$9.6 M.

Existing Parimutuel Revenue: Existing Pari-Mutuel Admission Tax: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if slot machine operations serve to increase paid attendance. Currently, admission is charged at Hoosier Park. Under current statute, 50% of the tax is distributed to the state General Fund. The potential impact is indeterminable.

License Fees: The bill provides for a slot machine operator license and a slot machine supplier's license. The initial slot machine operator's license would be effective for five years, with annual renewal thereafter. The initial license fee would be \$20,000 per slot machine placed in service (see discussion above under Initial

Licensing Fee). The annual renewal fee would be \$5,000. The annual fee for a supplier's license would be \$5,000. The bill requires a person to obtain a supplier's license to furnish slot machines to the horse race tracks. The bill also requires licensees to reimburse the IGC for the cost of any investigation of the licensee. The bill distributes the license fee revenue and investigation cost reimbursement money to the state General Fund.

Fiscal Impact Details: The fiscal impact is based on a range of estimates of potential patrons at slot machine facilities located at Hoosier Park and Indiana Downs. The patron estimates are based on adult population totals from counties not exceeding 120 miles from the two locations. Counties in this group that are closer to casinos in Indiana, Illinois, or Michigan are excluded. Participation and annual visitation rates of casino patrons are based on recent industry survey information. The estimate also assumes that the AGR per patron visit is between \$76 and \$77. It is important to note that the fiscal estimates are not adjusted to account for the potential displacement of Riverboat Admission Tax and Wagering Tax revenue by slot machine wagering at Hoosier Park and Indiana Downs. These potential competitive impacts on the fiscal outcomes are indeterminable, but could be significant.

Penalties: The bill makes it a Class A misdemeanor for a person to knowingly or intentionally aid, induce, or cause a person less than 21 years of age and who is not an employee of a slot machine facility to enter or attempt to enter the facility. It also makes it a Class A misdemeanor for a person who is less than 21 years of age and who is not an employee of a slot machine facility to knowingly or intentionally enter or attempt to enter the facility. The bill also establishes a Class D felony for various types of cheating at slot facilities.

If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000 and for a Class D felony is \$10,000. Criminal fines are deposited in the Common School Fund.

If the case is filed in a circuit, superior, or county court, 70% of the \$120 criminal costs fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund. In addition, some or all of the judicial salaries fee (\$15), the public defense administration fee (\$3), the court administration fee (\$2), the judicial insurance adjustment fee (\$1), and the DNA sample processing fee (\$1) are deposited into the state General Fund.

Explanation of Local Expenditures: *Penalties:* If more defendants are detained in county jails prior to their court hearings, local expenditures for jail operations may increase. The average cost per day is approximately \$44. A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: *Local Wagering Tax:* The bill imposes a Local Slot Machine Wagering Tax equal to 5% of adjusted gross receipts generated by slot machines at Hoosier Park and Indiana Downs. Tax revenue from Hoosier Park is to be distributed to Madison County for local units in the county, with the tax revenue from Indiana Downs distributed to Shelby County for local units in the county. Revenue from the tax in state fiscal year 2009 could potentially total **\$5.1 M to \$6.2 M** for Madison County and **\$3.4 M to \$4.1 M** for Shelby County. Annually thereafter, revenue from the tax could potentially total **\$6.75 M to \$8.25 M** for Madison County and **\$4.5 M to \$5.5 M** for Shelby County. (Note: The state fiscal year 2009 estimate assumes 9 months of revenue. The potential annual growth in this revenue is indeterminable.)

Penalties: If additional court actions occur and a guilty verdict is entered, local governments would receive

revenue from the following sources: The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. In addition, several additional fees may be collected at the discretion of the judge and depending upon the particular type of criminal case.

State Agencies Affected: Indiana Gaming Commission; Indiana Horse Racing Commission; Department of State Revenue; Department of Correction; Department of Agriculture; Indiana Economic Development Corporation.

Local Agencies Affected: Local units in Shelby County and Madison County; Trial courts, local law enforcement agencies; All local units.

Information Sources: Indiana Sheriffs' Association; Department of Correction; Indiana Gaming Commission, *FY 2006 Annual Report*; Harrah's Entertainment, Inc. *Harrah's Survey: Profile of the American Casino Gambler, 2002, 2003, 2004, & 2006*.

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